

MISSAUKEE DISTRICT LIBRARY

LAKE CITY, MICHIGAN

DECEMBER 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Missaukee District Library	County Missaukee
Audit Date 12/31/04	Opinion Date 2/4/05	Date Accountant Report Submitted to State: 3/8/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

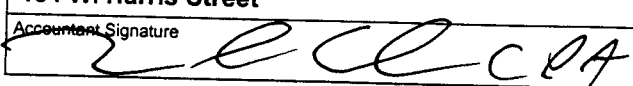
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
Accountant Signature 		ZIP 49601	Date 3/15/05

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P. C.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

February 4, 2005

INDEPENDENT AUDITORS' REPORT

Missaukee District Library
210 South Canal
Lake City, Michigan 49652

We have audited the accompanying basic financial statements of the Missaukee District Library as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Missaukee District Library management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

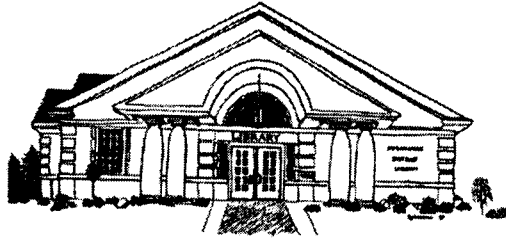
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Missaukee District Library as of December 31, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information on pages 2-6 and 23-24 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.



Missaukee District Library

PO Box 340 - 210 South Canal Street ☐ Lake City, MI 49651 ☐ christine@missaukeelibrary.org
ph: 231-839-2166 ☐ fx: 231-839-3865

Management's Discussion and Analysis For Fiscal Year Ended December 31, 2004

The Missaukee District Library, a Public Library located in Missaukee County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Missaukee District Library's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2004 for the Missaukee District Library. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENTS DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

C. Summary of Net Assets

The following schedule summarizes the net assets at December 31, 2004:

Assets

Current Assets	
Non Current Assets	\$ 210,997
Capital Assets	222,942
Less Accumulated Depreciation	<u>(135,685)</u>
Total Non Current Assets	<u>87,257</u>
Total Assets	<u>\$ 298,254</u>

Liabilities

Current Liabilities	<u>\$ 5,192</u>
---------------------	-----------------

Net Assets

Invested in Capital Assets Net of Related	
Unrestricted	<u>87,257</u>
	<u>205,805</u>
Total Net Assets	<u>\$ 293,062</u>

D. Analysis of Financial Position

During the fiscal year ended December 31, 2004, the Library's net assets increased by \$19,788. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2004, \$24,913 was recorded for depreciation expense.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENTS DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

2. Capital Outlay Acquisitions

For the fiscal year ended December 31, 2004, \$26,987 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$2,074 for the fiscal year ended December 31, 2004.

E. Results of Operations

For the fiscal year ended December 31, 2004, the results of operations were:

	Amount	% of Total
General Revenues		
Property Taxes	\$ 81,518	41.42%
Investment Earnings	1,636	0.83%
State Sources	64,723	32.89%
Other	<u>46,106</u>	<u>23.43%</u>
Other General Revenues	\$ 193,983	98.57%
Program Revenues		
Charges for Services	\$ 2,477	1.25%
Operating Grants	<u>356</u>	<u>0.18%</u>
Total Program Revenues	<u>\$ 2,833</u>	<u>1.43%</u>
Total Revenues	\$ 196,816	<u>100.00%</u>
Expenses		
General Government	<u>\$ 177,028</u>	<u>100.00%</u>
Changes in Net Assets	<u>\$ 19,788</u>	

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENTS DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

1. **Property Taxes**

The Library levied .2367 mills of property taxes for operations. For 2004, the Library recognized \$81,518 of property tax revenue.

2. **State Sources**

The majority of the state sources is comprised of penal fines received from Missaukee County. The Library collected \$53,690 in penal fines for 2004.

3. **Operating Grants**

The Library funds a portion of its operations with grants. For the fiscal year ended December 31, 2004, federal, state, and other grants accounted for \$356.

G. **General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on January 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on December 31.

For 2004, the Library amended the general fund budget various times throughout the year. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Revenues	\$ 185,448	\$ 189,012	\$ 191,298	\$ 2,286
Total Expenditures	185,448	189,012	179,102	9,910
Excess of Revenues Over Expenditures	\$ 0	\$ 0	\$ 12,196	\$ 12,196

The variance in the Total Revenue Original Budget to Final Budget was an increase of \$3,564. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$3,564.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENTS DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

H. Capital Assets

At December 31, 2004, the Library had \$222,942 in capital assets, including equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$24,913 bringing the accumulated depreciation to \$135,685 as of December 31, 2004.

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Missaukee District Library, 210 South Canal Street, PO Box 340, Lake City, Michigan, 49651.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

ASSETS

CURRENT ASSETS

Cash	
Investments	\$ 488
Taxes Receivable	111,967
Prepaid Expenses	81,518
Total Current Assets	<u>17,024</u>
	<u>210,997</u>

NON CURRENT ASSETS

Capital Assets	
Less: Accumulated Depreciation	222,942
Total Non Current Assets	<u>(135,685)</u>
	<u>87,257</u>
TOTAL ASSETS	<u>\$ 298,254</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	
Accrued Liabilities	\$ 809
Total Liabilities	<u>4,383</u>
	<u>5,192</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	
Unrestricted	87,257
	<u>205,805</u>
Total Net Assets	<u>293,062</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 298,254</u>

The notes to the financial statments are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>GOVERNMENTAL</u>
		<u>CHARGES FOR</u>	<u>GRANTS</u>	<u>ACTIVITIES</u>
		<u>SERVICES</u>		<u>NET (EXPENSE)</u>
				<u>REVENUE AND</u>
				<u>CHANGES IN</u>
				<u>NET ASSETS</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Recreation and Culture	\$ 177,028	\$ 2,477	\$ 356	\$ (174,195)
<u>GENERAL REVENUES</u>				
Property Taxes -General Purposes				81,518
Investment Earnings				1,636
State Sources				64,723
Other				46,106
Total General Revenues				193,983
Change in Net Assets				19,788
NET ASSETS - Beginning of Year				273,274
NET ASSETS - End of Year				\$ 293,062

The notes to the financial statmnts are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

DECEMBER 31, 2004

Total Governmental Fund Balances		\$ 124,287
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the fund		
The cost of the capital assets is	222,942	
Accumulated depreciation is	<u>(135,685)</u>	87,257
Taxes receivable are not available to pay for current period expenditures and therefore are reported as deferred revenue in governmental funds		<u>81,518</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 293,062</u>

The notes to the financial statments are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

BALANCE SHEET

DECEMBER 31, 2004

ASSETS

Cash	
Investments	\$ 488
Receivables	111,967
Taxes	81,518
Prepaid Expenditures	17,024
	<hr/>
TOTAL ASSETS	\$ 210,997
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 809
Accrued Liabilities	4,383
Deferred Revenue	81,518
	<hr/>
Total Liabilities	\$ 86,710
	<hr/>

FUND BALANCE

Reserved for:	
Prepaid Expenditures	\$ 17,024
Donor Designated Purchases	2,169
Unreserved	
Undesignated	105,094
	<hr/>
Total Fund Balance	\$ 124,287
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 210,997
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The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2004

Net change in Fund Balances Total Governmental Funds	\$ 12,196
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(24,913)
Capital Outlay	26,987
Revenue is recorded on the accrual method in the statement of activities; In the governmental funds it is recorded on the modified accrual method and not considered available:	
Taxes Included in Deferred Revenue - Beginning of Year	(76,000)
Taxes Included in Deferred Revenue - End of Year	81,518
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 19,788</u>

The notes to the financial statments are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2004

REVENUES

Taxes	
Property Tax	\$ 76,000
State Grants	
Restricted Grant - State of Michigan	11,033
Penal Fines	53,690
Contributions from Local Units	
County Appropriations	35,048
Charges For Services	
Copy Machine Receipts	2,477
Interest and Rents	
Earnings on Investments and Deposits	1,636
Other Revenue	
Reed Act/Gates Foundation Grant	356
Donations	7,826
Book Fines	1,918
Sales of Books and Sweatshirts	1,272
Miscellaneous	42
Total Revenues	<u>\$ 191,298</u>

EXPENDITURES

Recreation and Culture

Personal Services	
Salaries	\$ 67,676
Employee Fringe Benefits	
Employee Insurance	4,922
Payroll Taxes	8,587
Supplies and Materials	
Other Supplies	4,113
Other Services and Charges	
Purchased Services	
Legal and Professional Services	44
Advertising	58
Administration, Bookkeeping and Auditing	4,687
Building Lease	34,048

The notes to the financial statments are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2004

Equipment Lease	
Telephone	240
Insurance	1,586
Travel	4,767
Repairs and Maintenance	165
Other Professional and Technical	3,365
Other	3,562
Summer Reading Program	
Library Board Stipends	1,816
Miscellaneous	1,220
Dues and Fees	328
Internet Connection	5,946
Workshops	1,330
Capital Outlay	1,152
Library Books	
Periodicals	24,003
Equipment, Furniture and Fixtures	2,503
	2,984
Total Expenditures	<u>\$ 179,102</u>
Excess of Revenues Over (Under) Expenditures	\$ 12,196
<u>FUND BALANCE</u> - Beginning of Year	<u>112,091</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 124,287</u></u>

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Missaukee District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective January 1, 2004.

A. Reporting Entity

The Missaukee District Library was created as a District Library on May 25, 1993, by agreement between Missaukee County and the City of Lake City pursuant to Act 24 of the Public Acts of 1989. The Library provides services to the District defined as the entire geographic area of Missaukee County excluding Clam Union Township and the Houghton Lake School District. The Library board consists of seven members. The Missaukee County Board of Commissioners appoints five board members and the Lake City Council appoints two members.

The general-purpose financial statements of the Missaukee District Library have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental unit, except as discussed in Note I.C.2. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. There are no component units to be included in the organization's reporting entity.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

B. Government-wide and Fund Financial Statements

For the fiscal year 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library has a governmental fund called the General Fund, which accounts for all financial resources of the Library.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expense reimbursements and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

D. Assets, Liabilities and Equity

1. Deposits and Investments

- (I) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan statutes. State statutes authorize the Library to invest funds as follows:
- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
 - (c) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In bankers' acceptances of United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - (g) In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
 - (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

- (i) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years
Buildings	50 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

4. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

III. DETAILED NOTES ON ALL FUNDS

A. **Deposits and Investments**

The Library's deposits and investments are all on deposit with Chemical Bank or 5/3 Bank of Lake City or invested in the Missaukee County Investment Pool.

A breakdown of the deposits and investments is as follows:

Deposits - At year-end, the carrying amount of the Library deposits was \$390 and bank balance was \$2,036, all of which was covered by federal depository insurance and none was uninsured and uncollateralized. Additionally, the Library had \$98 of petty cash on hand at year end.

Investments

	<u>CARRYING</u> <u>AMOUNT</u>	<u>MARKET</u> <u>VALUE</u>
Uncategorized as to Risk:		
5/3 Michigan Governmental		
Operating Money Market Fund	\$ 100,861	\$ 100,861
Chemical Bank Michigan Governmental		
Operating Money Market Fund	11,106	11,106
TOTAL	<u>\$ 111,967</u>	<u>\$ 111,967</u>

B. **Property Taxes**

The Library receives revenue from a countywide library millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended December 31, 2004, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	0.2367/\$1,000

Because substantially all of the taxes raised by this millage are not received by the Library until the following year, and because the tax revenue is not budgeted until the following year, recognition of the entire 2004 tax levy of \$81,518 was deferred until 2005, under the modified accrual basis of accounting at the fund level.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets:				
Books	\$ 95,376	\$ 24,003	\$ 16,566	\$ 102,813
Furniture & Fixtures	68,969	0	0	68,969
Equipment	48,176	2,984	0	51,160
Subtotal	\$ 212,521	\$ 26,987	\$ 16,566	\$ 222,942
Accumulated depreciation	(119,723)	(24,913)	8,951	(135,685)
Net capital assets	\$ 92,798	\$ 2,074	\$ 7,615	\$ 87,257

Depreciation for the fiscal year ended December 31, 2004 amounted to \$24,913.

IV. OTHER INFORMATION

A. Building Leases

The building in which the Library is located is owned by Missaukee County. The County leases the building to the Library at a cost of \$34,048 a year. The lease amount is determined on a year-to-year basis. As of December 31, 2004, the District Library had prepaid \$17,024 of its 2005 lease requirement.

B. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

C. Endowments

On December 17, 2003, two endowments were established with the Cadillac Area Community Foundation. The Margaret Louise Hollingsworth Endowment was established with \$100,000. The earnings on the endowed balance are available to be used by the Library for such things as additional programs, books, audiovisual material, and additional items that may advance education and literary needs of the Library District. The Charles R. Ardis Endowment was established with \$100,000. The earnings on the endowed balance are available to be used by the Library for unforeseen expenses towards maintaining the existing library building architecturally and with the character as was originally donated by Charles and Virginia Ardis. Requests for funds will be reviewed by the Cadillac Area Community Foundation Advisory Committee. Additional endowments may be added to these initial endowments by anyone wishing to contribute.

<u>ENDOWMENTS</u>	<u>ENDOWED BALANCE 12-31-2003</u>	<u>EARNINGS BALANCE 12-31-2004</u>	<u>AMOUNT DRAWN FOR THE YEAR ENDING 12-31-2004</u>
Margaret Louise Hollingsworth	<u>\$ 100,000</u>	<u>\$ 4,901</u>	<u>\$ -0-</u>
Charles R. Ardis	<u>\$ 100,200</u>	<u>\$ 5,125</u>	<u>\$ -0-</u>

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2004

<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Taxes				
Property Tax	\$ 76,000	\$ 76,000	\$ 76,000	\$ 0
State Grants				
Restricted Grant - State of Michigan	10,000	10,000	11,033	1,033
Penal Fines	56,000	56,000	53,690	(2,310)
Contributions from Local Units				
County Appropriations	35,048	35,048	35,048	0
Charges For Services				
Copy Machine Receipts	1,650	1,650	2,477	827
Interest and Rents				
Earnings on Investments and Deposits	700	700	1,636	936
Other Revenue				
Reed Act/Gates Foundation Grant	300	300	356	56
Donations	2,700	6,180	7,826	1,646
Book Fines	1,650	1,650	1,918	268
Sales of Books and Sweatshirts	1,400	1,400	1,272	(128)
Miscellaneous	0	84	42	(42)
Total Revenues	<u>\$ 185,448</u>	<u>\$ 189,012</u>	<u>\$ 191,298</u>	<u>\$ 2,286</u>
<u>EXPENDITURES</u>				
<u>Recreation and Culture</u>				
Personal Services				
Salaries	\$ 64,900	\$ 65,630	\$ 67,676	\$ (2,046)
Employee Fringe Benefits				
Employee Insurance	4,880	4,943	4,922	21
Payroll Taxes	9,069	9,069	8,587	482
Supplies and Materials				
Other Supplies	4,300	5,158	4,113	1,045
Other Services and Charges				
Purchased Services				
Legal and Professional Services	500	100	44	56
Advertising	300	100	58	42
Administration, Bookkeeping and Auditing	5,000	5,000	4,687	313
Building Lease	34,048	34,048	34,048	0

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
Equipment Lease	240	240	240	0
Telephone	2,000	2,000	1,586	414
Insurance	4,500	4,767	4,767	0
Travel	400	186	165	21
Repairs and Maintenance	3,700	3,820	3,365	455
Other Professional and Technical	3,403	3,629	3,562	67
Other				
Summer Reading Program	2,000	1,850	1,816	34
Library Board Stipends	1,200	1,220	1,220	0
Miscellaneous	588	440	328	112
Dues and Fees	5,620	6,137	5,946	191
Memorial/Honor Shelving	500	200	0	200
Internet Connection	1,700	1,331	1,330	1
Workshops	1,800	1,200	1,152	48
Grants	1,000	0	0	0
Contingency Fund	7,500	6,610	0	6,610
Capital Outlay				
Library Books	19,800	24,750	24,003	747
Periodicals	2,500	2,584	2,503	81
Equipment, Furniture and Fixtures	4,000	4,000	2,984	1,016
Total Expenditures	\$ 185,448	\$ 189,012	\$ 179,102	\$ 9,910
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ 0	\$ 12,196	\$ 12,196
<u>FUND BALANCE</u> - Beginning of Year	112,091	112,091	112,091	0
<u>FUND BALANCE</u> - End of Year	\$ 112,091	\$ 112,091	\$ 124,287	\$ 12,196

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

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JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

February 4, 2005

LETTER OF REPORTABLE CONDITIONS

Missaukee District Library
Lake City, Michigan

In planning and performing our audit of the general-purpose financial statements of the Missaukee Library for the year ended December 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

- (a) The relatively small number of people involved in the accounting functions of the Library make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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February 4, 2005

Missaukee District Library
Lake City, Michigan

To the Board of Directors:

We have completed our audit of your financial statements for the year ended December 31, 2004. As a result of our audit, we would like to make the following comments and recommendations.

Budgeting

The General Fund total expenditures did not exceed total appropriations for the year. According to the Budget Manual for Local Units of Government, the budget must be amended when necessary. The amendment must be approved by the Board prior to the expenditure being made. This is not only a requirement of P.A. 621, but also a requirement of sound budgeting theory. The purpose of a budget is not only to approve expenditures but also to control expenditures. Wages were under-budgeted this year mainly because accrued wages were not taken into consideration.

While the Library has made significant improvements in its budgeting process, now the Library should focus on refining the process to ensure no technical violations of PA 621 exist, such as the one noted above. We are available to assist the Library with this requirement.

New Accounting Pronouncement

The Governmental Accounting Standards Board has provided for changes in reporting requirements for governmental financial statements. The main change is an inclusion of fixed assets; i.e., books, equipment and furniture and fixtures, with depreciation on these items to be reported for the year ending December 31, 2004. These statements reflect the new reporting requirement.

This report is intended solely for the information and use of the Board, management, and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

We appreciate the Library directors' cooperative spirit and assistance in completing our audit. We would also like to thank the Board for this opportunity to be of service. If there are any questions regarding the foregoing or any other accounting matters, please do not hesitate to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.